



## FINANCIAL MARKETS DEVELOPMENT



Photo: CMP

**USAID's Capital Markets Project (CMP)**  
**Pension Expert Gary Hendricks Explains**  
**Pension Unit Calculation**

### THE CHALLENGE

Foreign and domestic investment is stymied by inadequate capital market and lack of financial instruments and credit resources.

### PROGRAM OBJECTIVES

- Enhance regulatory capacity for oversight and supervision of the non-bank financial institutions.
- Improve the legislative framework in support of pension reform.
- Work with leading pension funds and capital market participants to strengthen industry standards.
- Develop new financial instruments.
- Develop the mortgage market.
- Increase the capacity of the leasing industry.

### OVERVIEW

USAID supports economic development and increased business investment in Ukraine to provide entrepreneurs easy access to average of sources of financial credit. To support both domestic and foreign investment, USAID works to broaden and deepen the range of financial instruments available for portfolio investment, which will help put a national pension system on solid financial footing.

### OUR PROGRAMS

#### Capital Markets Project

The *Capital Markets Project (CMP)* seeks to improve the legal and regulatory framework for capital markets, leading to sustained economic growth and a sound pension system. The CMP is working to: introduce a mandatory accumulation pension system (Pillar II) and strengthen private voluntary pension systems (Pillar III); build the capacity of financial sector regulators to implement effective risk-based supervision and regulate the private pension system; and develop investment grade financial instruments suitable for pension fund investment. The project is introducing a number of improvements in financial markets infrastructure institutions, such as stock exchanges, the securities depository, and professional self-regulatory organizations.

#### Access to Credit Initiative

This initiative mobilizes credit for use by small and medium businesses, prospective homeowners, farmers and municipalities, with an emphasis on mortgage lending, municipal bonds, and financial leasing. Central activities include developing an appropriate legal environment; building a knowledgeable cadre of financial professionals, and creating appropriate financial products to meet the needs of Ukrainian SMEs, agriculture, and municipalities. Eventually, entrepreneurs will be able to borrow against the value of their homes to provide capital for their businesses. It will be easier for Ukrainian citizens to own their own homes; farmers will be able to finance their agricultural production; and municipalities will be able to upgrade their infrastructure and services. Ukrainian banks and other financial institutions will gain a greater capacity to make business and home loans.

#### Business Investments and Loans

The *Western NIS Enterprise Fund (WNISEF)* is an investment fund initially capitalized with \$150 million by the U.S. Government. The Fund was established in 1994 to promote privatized and newly formed private companies and entrepreneurs in Ukraine, Moldova and Belarus. The Fund provides capital and management tools for restructuring and expanding private sector projects and attracting outside resources.

### PROGRAM HIGHLIGHTS

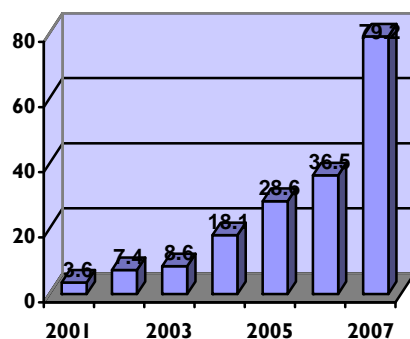
#### Capital Markets Project

USAID supported:

- In collaboration with the Securities and Stock Market State Commission, passage of the *Law on Securities and the Stock Market* leading to internationally compliant legislative framework for the capital market.

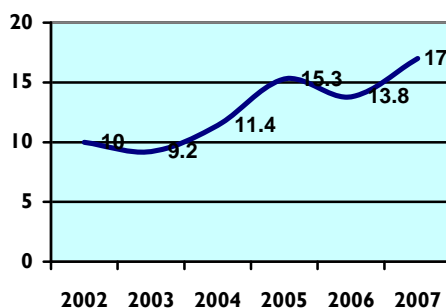
### Share of Financial Market Capitalization (in % of GDP)

(Source: EBRD)



### Share of Pension Fund Expenditures in GDP, %

(Source: WB/USAID)



#### Implementing Partners:

**Financial Markets International, Inc.;**  
**Pragma Corporation;**  
**Horizon Capital/WNIS Enterprise Fund**

For more information, please contact **USAID/Ukraine Development Outreach & Communications**, tel. (380 44) 537 4600 or visit <http://ukraine.usaid.gov>

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- Draft of the *Joint Stock Companies Law*, which introduces better shareholder protection, trade concentration rule, corporate governance norms and disclosure principles.
- In collaboration with the Ministry of Labor and Social Policy, Financial Services Regulator and market industry professionals, pension reform legislation, including laws on *Mandatory Accumulation Pension System*, on *Occupational Pensions*, amendments to the law on non-state pensions, as well as the *Financial Services Law* now before the Rada.
- The USAID/WB Programmatic Technical Assistance Partnership (PTAP) to develop capital markets and pension system, modernized Ukraine's capital markets and integrate them into the EU market.
- Resolution of current problems with the depository system in Ukraine and providing technical support to initiate the merger of existing depositories into a single Central Depository.
- Development and test of Electronic Disclosure and Pension Disclosure Systems which introduce modern disclosure processes for public companies and private pension funds.
- Training of Ukrainian regulators on capital markets oversight and enforcement and on risk-based supervision of private pension funds.
- Capital market participants on establishment of strong self-regulatory organizations, and improved licensing requirements for the market.

#### Access to Credit Initiative

USAID supported:

- Training and professional certification of over 100 mortgage lenders from 40 Ukrainian banks through the *Certified Mortgage Lender Program*;
- The issuance of three covered mortgage bonds, designed as conservative investment instruments for pension funds and insurance companies.
- Training of Securities and Stock Market State Commission personnel in the fundamentals of mortgage lending and mortgage bond issuance.
- Issuance of municipal bonds by cities for infrastructure improvements to improve the quality of life for their residents; the 2006 USAID-pilot municipal bond of \$1 million spurred 37 issues by 19 small cities worth \$154 million.
- Amendments to the *Covered Bond Law* and the *Law on Sub-National Borrowing*, which are currently with the Rada.
- Preparation of a debt management strategy and a concept for the introduction of a government securities market to introduce regular auctions, with pre - announced amounts to be funded using a professional pool of government securities dealers.
- Establishment of credit bureaus which are now selling reports to assist lenders in making their credit decisions and borrowers in recording their credit history.
- Establishment of the *Certified Leasing Specialist* program with 67 professionals now certified; establishing a new NGO, the League of Certified Leasing Specialists, to administer the CLS program and ensure sustainability. The number of companies engaged in leasing has increased to 85 and the industry's capacity to finance capital equipment increased with \$416 million in new leases for the end of 2008.

#### Business Investments and Loans

Since inception in 1994, the Western NIS Enterprise Fund has invested \$147.4 million in 33 companies employing over 24,000 people.